GRIFFON CORP
Form 10-Q
May 04, 2018
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 1-06620

GRIFFON CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	11-1893410
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
712 Fifth Ave, 18th Floor, New York, New York	10019
(Address of principal executive offices)	(Zip Code)

(212) 957-5000
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company)

Smaller reporting company o
Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes ý No

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The number of shares of common stock outstanding at April 30, 2018 was 45,756,488.

Griffon Corporation and Subsidiaries

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Part I – Financial Information
Item 1 – Financial Statements

GRIFFON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	(Unaudited) March 31, 2018	September 30, 2017
CURRENT ASSETS		
Cash and equivalents	$ 236,456	$ 47,681
Accounts receivable, net of allowances of $6,192 and $5,966	271,966	208,229
Contract costs and recognized income not yet billed, net of progress payments of $4,139 and $4,407	122,156	131,662
Inventories, net	384,467	299,437
Prepaid and other current assets	47,160	40,067
Assets of discontinued operations held for sale	—	370,724
Assets of discontinued operations not held for sale	328	329
Total Current Assets	1,062,533	1,098,129
PROPERTY, PLANT AND EQUIPMENT, net	291,516	232,135
GOODWILL	422,473	319,139
INTANGIBLE ASSETS, net	286,156	205,127
OTHER ASSETS	15,670	16,051
ASSETS OF DISCONTINUED OPERATIONS NOT HELD FOR SALE	2,952	2,960
Total Assets	$ 2,081,300	$ 1,873,541
CURRENT LIABILITIES		
Notes payable and current portion of long-term debt	$ 12,917	$ 11,078
Accounts payable	256,014	183,951
Accrued liabilities	113,479	83,258
Liabilities of discontinued operations held for sale	—	84,450
Liabilities of discontinued operations not held for sale	50,927	8,342
Total Current Liabilities	433,337	371,079
LONG-TERM DEBT, net	1,078,462	968,080
OTHER LIABILITIES	90,458	132,537
LIABILITIES OF DISCONTINUED OPERATIONS NOT HELD FOR SALE	5,025	3,037
Total Liabilities	1,607,282	1,474,733
COMMITMENTS AND CONTINGENCIES - See Note 18		
SHAREHOLDERS' EQUITY		
Total Shareholders' Equity	474,018	398,808
Total Liabilities and Shareholders' Equity	$ 2,081,300	$ 1,873,541

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

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GRIFFON CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)

	COMMON STOCK		CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TREASURY SHARES		ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	DEFERRED COMPENSATION	TOTAL
(in thousands)	SHARES	PAR VALUE			SHARES	COST			
Balance at September 30, 2017	80,663	$20,166	$487,077	$480,347	33,557	$(489,225)	$ (60,481)	$ (39,076)	$398,808
Net income	—	—	—	121,269	—	—	—	—	121,269
Dividend	—	—	—	(49,650)	—	—	—	—	(49,650)
Shares withheld on employee taxes on vested equity awards	—	—	—	—	197	(4,446)	—	—	(4,446)
Amortization of deferred compensation	—	—	—	—	—	—	—	1,672	1,672
Common stock acquired	—	—	—	—	1,438	(28,415)	—	—	(28,415)
Equity awards granted, net	811	203	(203)	—	—	—	—	—	—
ESOP allocation of common stock	—	—	1,101	—	—	—	—	—	1,101
Stock-based compensation	—	—	4,920	—	—	—	—	—	4,920
Other comprehensive income, net of tax	—	—	—	—	—	—	28,759	—	28,759
Balance at March 31, 2018	81,474	$20,369	$492,895	$551,966	35,192	$(522,086)	$ (31,722)	$ (37,404)	$474,018

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

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GRIFFON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Revenue	$478,560	$383,807	$915,863	$736,084
Cost of goods and services	357,087	284,938	673,546	540,471
Gross profit	121,473	98,869	242,317	195,613
Selling, general and administrative expenses	103,675	81,933	209,482	160,817
Income from operations	17,798	16,936	32,835	34,796
Other income (expense)				
Interest expense	(16,806)	(12,720)	(33,645)	(26,015)
Interest income	762	15	959	21
Other, net	1,434	(62)	966	(202)
Total other expense, net	(14,610)	(12,767)	(31,720)	(26,196)
Income before taxes from continuing operations	3,188	4,169	1,115	8,600
Provision (benefit) from income taxes	1,237	2,219	(23,667)	(394)
Income from continuing operations	$1,951	$1,950	$24,782	$8,994
Discontinued operations:				
Income from operations of discontinued operations (including a gain on sale of $117,625 in 2018)	$113,376	$6,070	124,842	14,615
Provision for income taxes (including tax on gain on sale of $31,268 in 2018)	25,047	2,975	28,355	6,300
Income from discontinued operations (including a gain on sale, net of tax of $86,357 in 2018)	$88,329	$3,095	96,487	8,315
Net income	$90,280	$5,045	$121,269	$17,309
Income from continuing operations	$0.05	$0.05	$0.59	$0.22
Income from discontinued operations	2.13	0.07	2.31	0.21
Basic earnings per common share	$2.18	$0.12	$2.91	$0.43
Weighted-average shares outstanding	41,477	41,277	41,700	40,307
Income from continuing operations	$0.05	$0.05	$0.58	$0.21
Income from discontinued operations	2.07	0.07	2.24	0.19
Diluted earnings per common share	$2.11	$0.12	$2.82	$0.40
Weighted-average shares outstanding	42,765	43,229	43,062	42,776
Dividends paid per common share	$0.07	$0.06	$0.14	$0.12

Net income	$90,280	$5,045	$121,269	$17,309
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments	19,714	8,409	18,425	(5,070)
Pension and other post retirement plans	247	544	9,806	1,088
Change in cash flow hedges	440	(1,020)	528	603
Total other comprehensive income (loss), net of taxes	20,401	7,933	28,759	(3,379)
Comprehensive income (loss), net	$110,681	$12,978	$150,028	$13,930

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The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

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GRIFFON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Six Months Ended March 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES - CONTINUING OPERATIONS:		
Net income	$121,269	$17,309
Net (income) from discontinued operations	(96,487)	(8,315)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	26,271	24,135
Stock-based compensation	4,920	4,795
Provision (recovery) for losses on accounts receivable	(201)	4
Amortization of debt discounts and issuance costs	2,754	2,879
Deferred income taxes	(23,136)	(3,859)
Gain on sale of assets and investments	—	(79)
Change in assets and liabilities, net of assets and liabilities acquired:		
Increase in accounts receivable and contract costs and recognized income not yet billed	(16,631)	(16,444)
Increase in inventories	(48,295)	(9,549)
(Increase) decrease in prepaid and other assets	10,867	(715)
Decrease in accounts payable, accrued liabilities and income taxes payable	(21,021)	(25,222)
Other changes, net	844	834
Net cash provided by (used in) operating activities - continuing operations	(38,846)	(14,227)
CASH FLOWS FROM INVESTING ACTIVITIES - CONTINUING OPERATIONS:		
Acquisition of property, plant and equipment	(21,628)	(15,538)
Acquired businesses, net of cash acquired	(246,230)	(6,051)
Proceeds from sale of business	473,977	—
Proceeds from sale of assets	454	102
Net cash provided by (used in) investing activities - continuing operations	206,573	(21,487)
CASH FLOWS FROM FINANCING ACTIVITIES - CONTINUING OPERATIONS:		
Dividends paid	(5,872)	(5,137)
Purchase of shares for treasury	(32,861)	(15,758)
Proceeds from long-term debt	347,898	195,655
Payments of long-term debt	(229,941)	(120,166)
Share premium payment on settled debt	—	(24,997)
Financing costs	(7,451)	(335)
Purchase of ESOP shares	—	(9,213)
Other, net	126	(187)
Net cash provided by (used in) financing activities - continuing operations	71,899	19,862
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Net cash provided by (used in) operating activities	(15,080)	22,260
Net cash used in investing activities	(10,762)	(26,937)
Net cash used in financing activities	(22,541)	(3,586)
Net cash provided by (used in) discontinued operations	(48,383)	(8,263)
Effect of exchange rate changes on cash and equivalents	(2,468)	(1,013)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	188,775	(25,128)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	47,681	72,553

CASH AND EQUIVALENTS AT END OF PERIOD	$236,456	$47,425

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

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GRIFFON CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(US dollars and non US currencies in thousands, except per share data)
(Unaudited)
(Unless otherwise indicated, references to years or year-end refer to Griffon's fiscal period ending September 30)

NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

About Griffon Corporation

Griffon Corporation (the "Company" or "Griffon") is a diversified management and holding company that conducts business through wholly-owned subsidiaries. Griffon oversees the operations of its subsidiaries, allocates resources among them and manages their capital structures. Griffon provides direction and assistance to its subsidiaries in connection with acquisition and growth opportunities as well as in connection with divestitures. In order to further diversify, Griffon also seeks out, evaluates and, when appropriate, will acquire additional businesses that offer potentially attractive returns on capital.

Headquartered in New York, N.Y., the Company was founded in 1959 and is incorporated in Delaware. Griffon is listed on the New York Stock Exchange and trades under the symbol GFF.

On May 3, 2018, Clopay Building Products Company, Inc. ("CBP") entered into a definitive agreement to acquire CornellCookson, Inc. ("CornellCookson"), a leading US manufacturer and marketer of rolling steel door and grille products designed for commercial, industrial, institutional and retail use, for $180,000, subject to certain post closing adjustments. After taking into account tax benefits resulting from the transaction, the effective purchase price is approximately $170,000. The transaction is subject to regulatory approval and customary closing conditions and is expected to close in June 2018.

On November 16, 2017, Griffon announced it entered into a definitive agreement to sell Clopay Plastic Products Company, Inc. ("PPC") and on February 6, 2018, completed the sale to Berry Global, Inc. (NYSE:BERY) ("Berry") for $475,000 in cash, subject to certain post-closing adjustments. As a result, Griffon classified the results of operations of the PPC business as discontinued operations in the Consolidated Statements of Operations for all periods presented and classified the related assets and liabilities associated with the discontinued operations in the consolidated balance sheets. All results and information presented exclude PPC unless otherwise noted. PPC is a global leader in the development and production of embossed, laminated and printed specialty plastic films for hygienic, health-care and industrial products and sells to some of the world's largest consumer products companies. See Note 14, Discontinued Operations.

On October 2, 2017, Griffon acquired ClosetMaid LLC ("ClosetMaid"). ClosetMaid, founded in 1965, is a leading North American manufacturer and marketer of closet organization, home storage, and garage storage products, and sells to some of the largest home center retail chains, mass merchandisers, and direct-to-builder professional installers in North America. The accounts, affected for preliminary adjustments to reflect fair market values assigned to assets purchased and liabilities assumed, and results of operations of ClosetMaid are included in the Company's consolidated financial statements from the date of acquisition of October 2, 2017. See Note 3, Acquisitions.

Griffon currently conducts its operations through two reportable segments:

- Home & Building Products ("HBP") consists of three companies, The AMES Companies, Inc. ("AMES"), CBP and ClosetMaid:

- AMES, founded in 1774, is the leading US manufacturer and a global provider of long-handled tools and landscaping products for homeowners and professionals.

- CBP, since 1964, is a leading manufacturer and marketer of residential and commercial garage doors and sells to professional dealers and some of the largest home center retail chains in North America.

- ClosetMaid, founded in 1965, is a leading North American manufacturer and marketer of closet organization, home storage, and garage storage products, and sells to some of the largest home center retail chains, mass merchandisers, and direct-to-builder professional installers.

- Telephonics Corporation ("Telephonics"), founded in 1933, is recognized globally as a leading provider of highly sophisticated intelligence, surveillance and communications solutions for defense, aerospace and commercial customers.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all the information and footnotes required by US GAAP for complete financial statements. As such, they should be read together with Griffon's Annual Report on Form 10-K for the year ended September 30, 2017, which provides a more complete explanation of Griffon's accounting policies, financial position, operating results, business properties and other matters. In the opinion of management, these financial statements reflect all adjustments considered necessary for a fair statement of interim results. Griffon's HBP operations are seasonal; for this and other reasons, the financial results of the Company for any interim period are not necessarily indicative of the results for the full year.

The condensed consolidated balance sheet information at September 30, 2017 was derived from the audited financial statements included in Griffon's Annual Report on Form 10-K for the year ended September 30, 2017.

The condensed consolidated financial statements include the accounts of Griffon and all subsidiaries. Intercompany accounts and transactions have been eliminated on consolidation.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. These estimates may be adjusted due to changes in economic, industry or customer financial conditions, as well as changes in technology or demand. Significant estimates include allowances for doubtful accounts receivable and returns, net realizable value of inventories, restructuring reserves, valuation of goodwill and intangible assets, percentage of completion method of accounting, pension assumptions, useful lives associated with depreciation and amortization of fixed and intangible assets, warranty reserves, sales incentive accruals, stock based compensation assumptions, income taxes and tax valuation reserves, environmental reserves, legal reserves, insurance reserves and the valuation of assets and liabilities of discontinued operations, acquisition assumptions used and the accompanying disclosures. These estimates are based on management's best knowledge of current events and actions Griffon may undertake in the future. Actual results may ultimately differ from these estimates.

Certain amounts in the prior year have been reclassified to conform to current year presentation.

NOTE 2 – FAIR VALUE MEASUREMENTS

The carrying values of cash and equivalents, accounts receivable, accounts and notes payable, and revolving credit and variable interest rate debt approximate fair value due to either the short-term nature of such instruments or the fact that the interest rate of the revolving credit and variable rate debt is based upon current market rates.

Applicable accounting guidance establishes a fair value hierarchy requiring the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. The accounting guidance establishes three levels of inputs that may be used to measure fair value, as follows:

- Level 1 inputs are measured and recorded at fair value based upon quoted prices in active markets for identical assets.

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Level 2 inputs include inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of assets or liabilities.

- Level 3 inputs are unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The fair values of Griffon's 2022 senior notes approximated $1,006,300 on March 31, 2018. Fair values were based upon quoted market prices (level 1 inputs).

On January 17, 2017, Griffon's 4% convertible subordinated notes settled for a total of $173,855. The total settlement value for the convertible notes was based on the sum of the daily Volume Weighted Average Price multiplied by the conversion rate over a 40-day observation period (level 1 inputs). The settlement value was split between $125,000 in cash and 1,954,993 shares, of common stock issued from treasury.

Insurance contracts with values of $2,957 at March 31, 2018 are measured and recorded at fair value based upon quoted prices in active markets for similar assets (level 2 inputs) and are included in Prepaid and other current assets on the Consolidated Balance Sheets.

Items Measured at Fair Value on a Recurring Basis

At March 31, 2018, trading securities, measured at fair value based on quoted prices in active markets for similar assets (level 2 inputs), with a fair value of $4,972 ($3,086 cost basis), were included in Prepaid and other current assets on the Consolidated Balance Sheets. Realized and unrealized gains and losses on trading securities are included in Other income in the Consolidated Statements of Operations and Comprehensive Income (Loss).

In the normal course of business, Griffon’s operations are exposed to the effects of changes in foreign currency exchange rates. To manage these risks, Griffon may enter into various derivative contracts such as foreign currency exchange contracts, including forwards and options. As of March 31, 2018, Griffon entered into several such contracts in order to lock into a foreign currency rate for planned settlements of trade and inter-company liabilities payable in US dollars.

At March 31, 2018, Griffon had $14,500 and $911 of Australian dollar and British Pound Sterling contracts, respectively, at a weighted average rate of $1.30 and $0.71, respectively, which qualified for hedge accounting (level 2 inputs). These hedges were all deemed effective as cash flow hedges with gains and losses related to changes in fair value deferred and recorded in Accumulated other comprehensive income (loss) ("AOCI") and Prepaid and other current assets, or Accrued liabilities, until settlement. Upon settlement, gains and losses are recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) in Cost of goods and services ("COGS"). AOCI included deferred gains of $746 ($528, net of tax) at March 31, 2018 and losses of $27 and $34 was recorded in COGS during the quarter and six months ended March 31, 2018, respectively, for all settled contracts. All contracts expire in 3 to 179 days.

At March 31, 2018, Griffon had $3,358 of Canadian dollar contracts at a weighted average rate of $1.29. The contracts, which protect Canadian operations from currency fluctuations for US dollar based purchases, do not qualify for hedge accounting. For the quarter and six months ended March 31, 2018, fair value loss (gain) of $145 and $(92), respectively, was recorded to Other liabilities and to Other income for the outstanding contracts, based on similar contract values (level 2 inputs). Realized gains of $71 and $42 were recorded in Other income during the quarter and six months ended March 31, 2018, respectively, for all settled contracts. All contracts expire in 30 to 178 days.

NOTE 3 – ACQUISITIONS

Griffon accounts for acquisitions under the acquisition method, in which assets acquired and liabilities assumed are recorded at fair value as of the date of acquisition using a method substantially similar to the goodwill impairment test methodology (level 3 inputs). The operating results of the acquired companies are included in Griffon’s consolidated financial statements from the date of acquisition; in each instance, Griffon is in the process of finalizing the initial purchase price allocation.

On May 3, 2018, CBP entered into a definitive agreement to acquire CornellCookson, a leading US manufacturer and marketer of rolling steel door and grille products designed for commercial, industrial, institutional and retail use, for

$180,000, subject to certain post closing adjustments. The transaction is subject to regulatory approval and customary closing conditions and is expected to close in June 2018.

On February 13, 2018, AMES acquired Kelkay, a United Kingdom manufacturer and distributor of decorative outdoor landscaping products sold to leading garden centers, retailers and grocers in the UK and Ireland for $56,118 (GBP $40,452), subject to contingent consideration of up to GBP 7,000. The purchase price was primarily allocated to fixed assets and land of GBP 8,241, tradenames of GBP 6,739 and accounts receivable and inventory of GBP 8,894.

On November 6, 2017, AMES acquired Harper Brush Works (“Harper”), a division of Horizon Global, for approximately $4,383, inclusive of post-closing adjustments. Harper is a leading U.S. manufacturer of cleaning products for professional, home, and industrial use. The acquisition broadens AMES’ long-handled tool offering in North America to include brooms, brushes, and other cleaning tools and accessories. The purchase price was primarily allocated to intangible assets of $2,300.

On October 2, 2017, Griffon Corporation completed the acquisition of ClosetMaid, a market leader of home storage and organization products, for approximately $185,700, inclusive of post-closing adjustments. ClosetMaid adds to Griffon's Home and Building Products segment, complementing and diversifying Griffon's portfolio of leading consumer brands and products.

ClosetMaid's accounts, affected for preliminary adjustments to reflect fair market values assigned to assets purchased and liabilities assumed, and results of operations are included in the Company’s consolidated financial statements from the date of acquisition of October 2, 2017. The Company has recorded a preliminary allocation of the purchase price to the Company’s tangible and identifiable intangible assets acquired and liabilities assumed based on their fair market values (level 3 inputs) at the acquisition date. The excess of the purchase price over the fair value of the net tangible and intangible assets was recorded as goodwill and is deductible for tax purposes. Goodwill recognized at the acquisition date represents the other intangible benefits that the Company will derive from the ownership of ClosetMaid, however, such intangible benefits do not meet the criteria for recognition of separately identifiable intangible assets.

The following unaudited proforma summary from continuing operations presents consolidated information as if the Company acquired ClosetMaid on October 1, 2016:

	Proforma For the three months ended March 31, 2017 (unaudited)	Proforma For the six months ended March 31, 2017 (unaudited)
Revenue	$ 459,307	$ 888,485
Income from continuing operations	3,082	11,062

Griffon did not include any material, nonrecurring proforma adjustments directly attributable to the business combination in the proforma revenue and earnings. These proforma amounts have been compiled by adding the historical results from continuing operations of Griffon, restated for classifying the results of operations of the PPC business as a discontinued operation, to the historical results of ClosetMaid after applying Griffon’s accounting policies and the following proforma adjustments:

- Additional depreciation and amortization that would have been charged assuming the preliminary fair value adjustments to property, plant, and equipment, and intangible assets had been applied from October 1, 2016.
- Elimination of intercompany interest income recorded on ClosetMaid’s financial statements earned on an intercompany receivable due from ClosetMaid’s former parent.
- Additional interest and related expenses from the add-on offering of $275,000 for the aggregate principal amount of 5.25% senior notes due 2022 that Griffon used to acquire ClosetMaid.
- Removal of $100 and $700 of restructuring costs from ClosetMaid's historical results for the quarter and six months ended March 31, 2017, respectively.
- The consequential tax effects of the above adjustments using a 53% and 56% tax rate for the quarter and six months ended March 31, 2017, respectively.

The calculation of the preliminary purchase price allocation, which is pending finalization of tax-related items and completion of the related final valuation, is as follows:

Accounts receivable [(1)]	$32,234
Inventories [(2)]	28,422
Property, plant and equipment	48,171
Goodwill	69,408
Intangible assets	74,580
Other current and non-current assets	3,852
Total assets acquired	256,667
Accounts payable and accrued liabilities	68,218
Long-term liabilities	2,720
Total liabilities assumed	70,938
Total	$185,729

[(1)] Includes $32,956 of gross accounts receivable of which $722 was not expected to be collected. The fair value of accounts receivable approximated book value acquired.
[(2)] Includes $1,500 in inventory basis step-up, which was charged to cost of goods sold over the inventory turns of the acquired entity.

The amounts assigned to goodwill and major intangible asset classifications, all of which are tax deductible, for the ClosetMaid acquisition are as follows:

		Average Life (Years)
Goodwill	$69,408	N/A
Indefinite-lived intangibles	47,740	N/A
Definite-lived intangibles	26,840	21
Total goodwill and intangible assets	$143,988	

On May 10, 2017, Griffon entered into an engagement letter with Goldman Sachs & Co. LLC (“Goldman Sachs”) pursuant to which Goldman Sachs agreed to act as Griffon’s financial advisor in connection with the acquisition of ClosetMaid. Griffon subsequently paid a customary financial advisory fee to Goldman Sachs under the terms of this engagement letter following consummation of the acquisition.

On September 29, 2017, AMES Australia completed the acquisition of Tuscan Landscape Group Pty, Ltd. ("Tuscan Path") for approximately $18,000 (AUD 22,250). Tuscan Path is a leading Australian provider of pots, planters, pavers, decorative stone, and garden decor products. The acquisition of Tuscan Path broadens AMES' outdoor living and lawn and garden business, and will strengthen AMES' industry leading position in Australia. The purchase price was primarily allocated to intangible assets of AUD 3,900 and inventory and accounts receivable of AUD 7,900.

On July 31, 2017, The AMES Companies, Inc. acquired La Hacienda Limited, a leading United Kingdom outdoor living brand of unique heating and garden decor products, for approximately $10,610 (GBP 8,575), subject to contingent earn out payments of up to $790 (GBP 600). The acquisition of La Hacienda broadens AMES' global outdoor living and lawn and garden business and supports AMES' UK expansion strategy. The purchase price allocation was primarily allocated to intangible assets of approximately GBP 3,100 and inventory and accounts receivable of GBP 4,200.

On December 30, 2016, AMES Australia acquired Hills Home Living ("Hills") for approximately $6,051 (AUD 8,400). The purchase price has been allocated to acquired assets and assumed liabilities and primarily consists of inventory, tooling and

identifiable intangible assets, including trademarks, intellectual property and customer relationships. Hills, founded in 1946, is a market leader in the supply of clothesline, laundry and garden products. The Hills acquisition adds to AMES' existing broad category of products and enhances our lawn and garden product offerings in Australia. The purchase price was primarily allocated to intangible assets of approximately AUD 6,400 with the remainder primarily inventory.

On February 14, 2016, AMES Australia acquired substantially all of the Intellectual Property (IP) assets of Australia-based Nylex Plastics Pty Ltd. for approximately $1,744 (AUD 2,452). Through this acquisition, AMES and Griffon secured the ownership of the trademark “Nylex” for certain categories of AMES products, principally in the country of Australia. Previously, the Nylex name was licensed. The acquisition of the Nylex IP was contemplated as a post-closing activity following the Cyclone acquisition and supports AMES' Australian watering products strategy. The purchase price was allocated to indefinite lived trademarks and is not deductible for income taxes.

During the three months ended March 31, 2018, SG&A included acquisition costs of $814. During the six months ended March 31, 2018, SG&A and Cost of goods and services included acquisition costs of $2,499 and $1,500, respectively. Acquisition costs were not recorded in the prior year comparable periods.

NOTE 4 – INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out or average) or market.

The following table details the components of inventory:

	At March 31, 2018	At September 30, 2017
Raw materials and supplies	$ 88,201	$ 67,990
Work in process	81,937	78,846
Finished goods	214,329	152,601
Total	$ 384,467	$ 299,437

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

The following table details the components of property, plant and equipment, net:

	At March 31, 2018	At September 30, 2017
Land, building and building improvements	$ 102,426	$ 71,764
Machinery and equipment	504,650	462,173
Leasehold improvements	48,483	43,040
	655,559	576,977
Accumulated depreciation and amortization	(364,043)	(344,842)
Total	$ 291,516	$ 232,135

Depreciation and amortization expense for property, plant and equipment was $11,530 and $10,503 for the quarters ended March 31, 2018 and 2017, respectively, and $22,232 and $20,852 for the six months ended March 31, 2018 and 2017, respectively. Depreciation included in SG&A expenses was $3,834 and $3,230 for the quarters ended March 31, 2018 and 2017, respectively, and $7,576 and $6,290 for the six months ended March 31, 2018 and 2017, respectively. Remaining components of depreciation, attributable to manufacturing operations, are included in Cost of goods and services.

No event or indicator of impairment occurred during the three and six months ended March 31, 2018 which would require additional impairment testing of property, plant and equipment.

NOTE 6 – GOODWILL AND OTHER INTANGIBLES

The following table provides changes in the carrying value of goodwill by segment during the three and six months ended March 31, 2018:

	At September 30, 2017	Goodwill from acquisitions	Other adjustments including currency translations	At March 31, 2018
Home & Building Products	$ 300,594	$ 103,628	$ (294)	$ 403,928
Telephonics	18,545	—	—	18,545
Total	$ 319,139	$ 103,628	$ (294)	$ 422,473

The following table provides the gross carrying value and accumulated amortization for each major class of intangible assets:

	At March 31, 2018			At September 30, 2017	
	Gross Carrying Amount	Accumulated Amortization	Average Life (Years)	Gross Carrying Amount	Accumulated Amortization
Customer relationships	$ 166,345	$ 46,084	25	$ 152,025	$ 43,421
Technology and patents	17,429	5,679	12.5	6,193	4,719
Total amortizable intangible assets	183,774	51,763		158,218	48,140
Trademarks	154,145	—		95,049	—
Total intangible assets	$ 337,919	$ 51,763		$ 253,267	$ 48,140

Amortization expense for intangible assets was $1,783 and $1,644 for the quarters ended March 31, 2018 and 2017, respectively, and $4,039 and $3,283 for the six months ended March 31, 2018 and 2017, respectively.

No event or indicator of impairment occurred during the three and six months ended March 31, 2018 which would require impairment testing of long-lived intangible assets including goodwill.

NOTE 7 – INCOME TAXES

On December 22, 2017, the "Tax Cuts and Jobs Act" ("TCJA") was signed into law, significantly impacting several sections of the Internal Revenue Code. ASC 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment even though the effective date for most provisions is for tax years beginning after December 31, 2017, or in the case of certain other provisions, January 1, 2018. Though certain key aspects of the TCJA are effective January 1, 2018 and have an immediate accounting effect, other significant provisions are not effective or may not result in accounting effects for September 30 fiscal year companies until October 1, 2018.

Given the significance of the TCJA, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allows registrants to record provisional amounts during a one year “measurement period”. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed.

Among the significant changes to the U.S. Internal Revenue Code, the TCJA lowers the U.S. federal corporate income tax rate (“Federal Tax Rate”) from 35% to 21% effective January 1, 2018. The Company will compute its income tax expense for the September 30, 2018 fiscal year using a blended Federal Tax Rate of 24.5%. The 21% Federal Tax Rate will apply to fiscal years ending September 30, 2019 and each year thereafter.

The Company has recorded provisional amounts for the effects of the TCJA where accounting is not complete but a reasonable estimate has been determined. The company recorded a $23,136 benefit on the revaluation of deferred tax liabilities as a provisional amount for the re-measurement of deferred tax assets and liabilities, as well as an amount for deductible executive compensation expense, both of which have been reflected in the tax benefit for the six months ended March 31, 2018.

A reasonable estimate cannot yet be made and therefore taxes are reflected based on the law in effect prior to the enactment of the Tax Cuts and Jobs Act for the impact of the one-time mandatory repatriation transition tax on the net accumulated earnings and profits of a U.S. taxpayer's foreign subsidiaries, bonus depreciation expensing for qualified property placed in service after September 27, 2017 and the impact on state income taxes.

The provisional amounts incorporate assumptions made based upon the Company's current interpretation of the TCJA and may change as the Company receives additional clarification and implementation guidance.

In accordance with SAB 118 adjustments recorded to the provisional amounts will be reflected within the measurement period through the quarter ended December 31, 2018 and will be included in income from continuing operations and net income as an adjustment to tax expense.

During the quarter ended March 31, 2018, the Company recognized a tax provision of $1,237 on income before taxes from continuing operations of $3,188, compared to $2,219 on income before taxes from continuing operations of $4,169, in the comparable prior year quarter. The current quarter results included acquisition costs of $814 ($378, net of tax) and discrete and certain other tax provisions, net, of $368. The prior year quarter included discrete and certain other tax provisions, net, of $466. Excluding these tax items, the effective tax rates for the quarters ended March 31, 2018 and 2017 were 32.6% and 42.1%, respectively.
During the six months ended March 31, 2018, the Company recognized a tax benefit of $23,667 on income before taxes from continuing operations of $1,115, compared to a tax benefit of $394 on Income before taxes from continuing operations of $8,600 in the comparable prior year period. The six month period ended March 31, 2018 included net tax benefits of $22,650 primarily from the December 22, 2017 tax reform bill related to revaluation of deferred tax liabilities, $3,999 ($2,726 net of tax) of acquisition costs and $2,614 ($248 net of tax) related to cost of life insurance benefits. The six month period ended March 31, 2017 included discrete benefits of $3,956 primarily from the adoption of Financial Accounting Standards Board guidance which requires the Company to recognize excess tax benefits from the vesting of equity awards within income tax expense. Excluding these tax items, the effective tax rates for the six months ended March 31, 2018 and 2017 were 33.9% and 41.4%, respectively.

NOTE 8 – LONG-TERM DEBT

		At March 31, 2018					At September 30, 2017				
		Outstanding Balance	Original Issuer Premium	Capitalized Fees & Expenses	Balance Sheet	Coupon Interest Rate (1)	Outstanding Balance	Original Issuer Discount	Capitalized Fees & Expenses	Balance Sheet	Coupon Interest Rate (1)
Senior notes due 2022	(a)	$1,000,000	$1,396	$(14,715)	$986,681	5.25 %	725,000	$(1,177)	$(9,220)	$714,603	5.25
Revolver due 2021	(b)	14,896	—	(1,689)	13,207	Variable	144,216	—	(1,951)	142,265	Variable
Real estate mortgages	(d)	—	—	—	—	Variable	23,642	—	(320)	23,322	Variable
ESOP Loans	(e)	41,537	—	(248)	41,289	Variable	42,675	—	(310)	42,365	Variable
Capital lease - real estate	(f)	8,983	—	(93)	8,890	5.00 %	5,312	—	(105)	5,207	5.00
Non US lines of credit	(g)	2,125	—	(24)	2,101	Variable	9,402	—	(31)	9,371	Variable
Non US term loans	(g)	33,277	—	(90)	33,187	Variable	35,943	—	(108)	35,835	Variable
Other long term debt	(h)	6,045	—	(21)	6,024	Variable	6,211	—	(21)	6,190	Variable
Totals		1,106,863	1,396	(16,880)	1,091,379		992,401	(1,177)	(12,066)	979,158	
less: Current portion		(12,917)	—	—	(12,917)		(11,078)	—	—	(11,078)	
Long-term debt		$1,093,946	$1,396	$(16,880)	$1,078,462		$981,323	$(1,177)	$(12,066)	$968,080	

(1) n/a = not applicable

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		Three Months Ended March 31, 2018					Three Months Ended March 31, 2017				
		Effective Interest Rate (1)	Cash Interest	Amort. Debt Discount	Amort. Debt Issuance Costs & Other Fees	Total Interest Expense	Effective Interest Rate (1)	Cash Interest	Amort. Debt Discount	Amort. Debt Issuance Costs & Other Fees	Total Interest Expense
Senior notes due 2022	(a)	5.7 %	13,125	68	943	14,136	5.5 %	9,515	68	461	10,044
Revolver due 2021	(b)	Variable	922	—	140	1,062	Variable	1,326	—	150	1,476
Convert. debt due 2017	(c)	n/a	—	—	—	—	9.1 %	167	190	37	394
Real estate mortgages	(d)	n/a	166	—	303	469	2.4 %	158	—	8	166
ESOP Loans	(e)	4.6 %	442	—	31	473	3.3 %	369	—	38	407
Capital lease - real estate	(f)	5.5 %	327	—	7	334	5.4 %	75	—	6	81
Non US lines of credit	(g)	Variable	4	—	—	4	Variable	21	—	7	28
Non US term loans	(g)	Variable	330	—	18	348	Variable	236	—	18	254
Other long term debt	(h)	Variable	114	—	1	115	Variable	48	—	4	52
Capitalized interest			(135)	—	—	(135)		(182)	—	—	(182)
Totals			$15,295	$ 68	$ 1,443	$16,806		$11,733	$ 258	$ 729	$12,720

		Six Months Ended March 31, 2018					Six Months Ended March 31, 2017				
		Effective Interest Rate (1)	Cash Interest	Amort. Debt Discount	Amort. Debt Issuance Costs & Other Fees	Total Interest Expense	Effective Interest Rate (1)	Cash Interest	Amort. Debt Discount	Amort. Debt Issuance Costs & Other Fees	Total Interest Expense
Senior notes due 2022	(a)	5.7 %	26,250	135	1,882	28,267	5.5 %	19,031	135	934	20,100
Revolver due 2021	(b)	Variable	2,278	—	281	2,559	Variable	1,651	—	282	1,933
Convert. debt due 2017	(c)	n/a	—	—	—	—	8.9 %	1,167	1,248	148	2,563
Real estate mortgages	(d)	n/a	351	—	320	671	2.4 %	278	—	10	288
ESOP Loans	(e)	4.3 %	855	—	62	917	4.1 %	733	—	65	798
Capital lease - real estate	(f)	10.7 %	491	—	13	504	5.4 %	155	—	12	167
Non US lines of credit	(g)	Variable	11	—	7	18	Variable	25	—	10	35
Non US term loans	(g)	Variable	664	—	51	715	Variable	458	—	29	487

Other long term debt	(h) Variable	229	—	3	232	Variable	122	—	6	128
Capitalized interest		(238)	—	—	(238)		(484)	—	—	(484)
Totals		$30,891	$ 135	$2,619	$33,645		$23,136	$1,383	$1,496	$26,015

(1) n/a = not applicable

(a) On October 2, 2017, in an unregistered offering through a private placement under Rule 144A, Griffon completed the add-on offering of $275,000 principal amount of its 5.25% senior notes due 2022, at 101.00% of par, to Griffon's previously issued $125,000 principal amount of its 5.25% senior notes due 2022, at 98.76% of par, completed on May 18, 2016 and $600,000 5.25% senior notes due 2022, at par, completed on February 27, 2014 (collectively the "Senior Notes"). As of March 31, 2018, outstanding Senior Notes due totaled $1,000,000; interest is payable semi-annually on March 1 and September 1. The net proceeds of the $275,000 add-on offering were used to acquire ClosetMaid with the remaining proceeds used to pay down outstanding loan borrowings under Griffon's revolving credit facility (the "Credit Agreement"). The net proceeds of the previously issued $125,000 add-on offering were used to pay down outstanding revolving loan borrowings under the Credit Agreement.

The Senior Notes are senior unsecured obligations of Griffon guaranteed by certain domestic subsidiaries, and subject to certain covenants, limitations and restrictions. On February 5, 2018 and June 18, 2014, Griffon exchanged all of the $275,000, $125,000 and $600,000 Senior Notes, respectively, for substantially identical Senior Notes registered under the Securities Act of 1933 via an exchange offer. The fair value of the Senior Notes approximated $1,006,300 on March 31, 2018 based upon quoted market prices (level 1 inputs). In connection with the issuance and exchange of the $275,000 senior notes, Griffon capitalized $8,472 of underwriting fees and other expenses; Griffon capitalized $3,016 of underwriting fees and other expenses in connection with the $125,000 senior notes; and Griffon capitalized $10,313 in connection with the previously issued $600,000 senior notes. All capitalized fees will amortize over the term of the notes.

(b) On March 22, 2016, Griffon amended the Credit Agreement to increase the credit facility from $250,000 to $350,000, extend its maturity date from March 13, 2020 to March 22, 2021 and modify certain other provisions of the facility. On October 2, 2017, Griffon further amended the Credit Agreement in association with the ClosetMaid acquisition to modify the net leverage covenant through the quarter ended March 31, 2019. The facility includes a letter of credit sub-facility with a limit of $50,000 and a multi-currency sub-facility of $50,000. The Credit Agreement provides for same day borrowings of base rate loans. Borrowings under the Credit Agreement may be repaid and re-borrowed at any time, subject to final maturity of the facility or the occurrence of an event of default under the Credit Agreement. Interest is payable on borrowings at either a LIBOR or base rate benchmark rate, in each case without a floor, plus an applicable margin, which adjusts based on financial performance. Current margins are 1.50% for base rate loans and 2.50% for LIBOR loans. The Credit Agreement has certain financial maintenance tests including a maximum total leverage ratio, a maximum senior secured leverage ratio and a minimum interest coverage ratio, as well as customary affirmative and negative covenants and events of default. The negative covenants place limits on Griffon's ability to, among other things, incur indebtedness, incur liens, and make restricted payments and investments. Borrowings under the Credit Agreement are guaranteed by Griffon's material domestic subsidiaries and are secured, on a first priority basis, by substantially all domestic assets of the Company and the guarantors, and a pledge of not greater than 65% of the equity interest in Griffon's material, first-tier foreign subsidiaries (except that a lien on the assets of Griffon's material domestic subsidiaries securing a limited amount of the debt under the Credit Agreement relating to Griffon's Employee Stock Ownership Plan ("ESOP") ranks pari passu with the lien granted on such assets under the Credit Agreement; see footnote (e) below). At March 31, 2018, under the Credit Agreement, there were $14,896 in outstanding borrowings; standby letters of credit were $14,896; and $320,208 was available, subject to certain loan covenants, for borrowing at that date.

(c) On December 21, 2009, Griffon issued $100,000 principal amount of 4% convertible subordinated notes due 2017 (the "2017 Notes"). On July 14, 2016, Griffon announced that it would settle, upon conversion, up to $125,000 of the conversion value of the 2017 Notes in cash, with amounts in excess of $125,000, if any, to be settled in shares of Griffon common stock. On January 17, 2017, Griffon settled the convertible debt for $173,855 with $125,000 in cash, utilizing borrowings under the Credit Agreement, and $48,858, or 1,954,993 shares, of common stock issued from treasury.

(d) In September 2015 and March 2016, Griffon entered into mortgage loans in the amounts of $32,280 and $8,000, respectively. The mortgage loans were secured by four properties occupied by Griffon's subsidiaries. The loans were due to mature in September 2025 and April 2018, respectively, were collateralized by the specific properties financed and were guaranteed by Griffon. The loans had an interest rate of LIBOR plus 1.50%. The loans were paid off during the quarter ended March 31, 2018.

(e) In August 2016, Griffon's ESOP entered into an agreement that refinanced the existing ESOP loan into a new Term Loan in the amount of $35,092 (the "Agreement"). The Agreement also provided for a Line Note with $10,908 available to purchase shares of Griffon common stock in the open market. During 2017, Griffon's ESOP purchased 621,875 shares of common stock for a total of $10,908 or $17.54 per share, under a borrowing line that has now been fully utilized. On June 30, 2017, the Term Loan and Line Note were combined into a single Term Loan. The Term Loan bears interest at LIBOR plus 2.50%. The Term Loan requires a quarterly principal payment of $569 with a balloon payment due at maturity on March 22, 2020.

As of March 31, 2018, $41,289, net of issuance costs, was outstanding under the Term Loan. The Term Loan is secured by shares purchased with the proceeds of the loan and with a lien on a specific amount of Griffon assets (which lien ranks pari passu with the lien granted on such assets under the Credit Agreement) and is guaranteed by Griffon.

(f) Two Griffon subsidiaries have capital leases outstanding for real estate located in Troy, Ohio and Ocala, Florida. The leases mature in 2021 and 2022, respectively, and bear interest at fixed rates of approximately 5.0% and 8.0%, respectively. The Troy Ohio lease is secured by a mortgage on the real estate and is guaranteed by Griffon. The Ocala, Florida lease contains two five-year renewal options. At March 31, 2018, $8,890 was outstanding, net of issuance costs.

(g) In November 2012, Garant G.P. (“Garant”) entered into a CAD $15,000 ($11,624 as of March 31, 2018) revolving credit facility. The facility accrues interest at LIBOR (USD) or the Bankers Acceptance Rate (CDN) plus 1.3% per annum (3.18% LIBOR USD and 2.87% Bankers Acceptance Rate CDN as of March 31, 2018). The revolving facility matures in October 2019. Garant is required to maintain a certain minimum equity. At March 31, 2018, there were no borrowings under the revolving credit facility with CAD 15,000 ($11,624 as of March 31, 2018) available for borrowing.

In July 2016, Griffon Australia Holdings Pty Ltd and its Australian subsidiaries ("Griffon Australia") entered into an AUD 30,000 term loan and an AUD 10,000 revolver. The term loan refinanced two existing term loans and the revolver replaced two existing lines. In December 2016, the amount available under the revolver was increased from AUD 10,000 to AUD 20,000 and, in March 2017, the term loan commitment was increased by AUD 5,000. In September 2017, the term commitment was further increased by AUD 15,000. The term loan requires quarterly principal payments of AUD 1,250 plus interest, with a balloon payment of AUD 37,125 due upon maturity in June 2019, and accrues interest at Bank Bill Swap Bid Rate “BBSY” plus 2.00% per annum (4.08% at March 31, 2018). As of March 31, 2018, the term loan had an outstanding balance of AUD 43,375 ($33,277 as of March 31, 2018). The revolving facility matures in November 2018, but is renewable upon mutual agreement with the bank, and accrues interest at BBSY plus 2.0% per annum (3.94% at March 31, 2018). At March 31, 2018, there were no borrowings under the revolving credit facility with AUD 20,000($15,344 as of March 31, 2018) available for borrowing. The revolver and the term loan are both secured by substantially all of the assets of Griffon Australia and its subsidiaries. Griffon guarantees the term loan. Griffon Australia is required to maintain a certain minimum equity level and is subject to a maximum leverage ratio and a minimum fixed charges cover ratio.

A UK subsidiary of Griffon maintains an invoice discounting arrangement secured by trade receivables. Interest is variable at 2.0% over the Sterling base rate (2.5% as of March 31, 2018). At March 31, 2018 the amount outstanding under this facility was $2,125 (GBP $1,512).

(h) Other long-term debt consists primarily of a loan with the Pennsylvania Industrial Development Authority, with the balance consisting of capital leases.

At March 31, 2018, Griffon and its subsidiaries were in compliance with the terms and covenants of all credit and loan agreements.

NOTE 9 — SHAREHOLDERS’ EQUITY

During 2018, the Company paid a quarterly cash dividend of $0.07 per share in each quarter, totaling $0.14 per share for the six months ended March 31, 2018. During 2017, the Company paid quarterly cash dividends of $0.06 per share, totaling $0.24 per share for the year. Dividends paid on shares in the ESOP were used to offset ESOP loan payments and recorded as a reduction of debt service payments and compensation expense. A dividend payable was established for the holders of restricted shares; such dividends will be released upon vesting of the underlying

restricted shares.

On March 7, 2018, the Board of Directors declared a special cash dividend of $1.00 per share, payable on April 16, 2018 to shareholders of record as of the close of business on March 29, 2018. On May 3, 2018, the Board of Directors declared a quarterly cash dividend of $0.07 per share, payable on June 21, 2018 to shareholders of record as of the close of business on May 25, 2018.

Compensation expense for restricted stock is recognized ratably over the required service period based on the fair value of the grant, calculated as the number of shares granted multiplied by the stock price on the date of grant and, for performance shares, the likelihood of achieving the performance criteria. Compensation cost related to stock-based awards with graded vesting, generally over a period of three to four years, is recognized using the straight-line attribution method and recorded within SG&A expenses.

On January 29, 2016, shareholders approved the Griffon Corporation 2016 Equity Incentive Plan ("Incentive Plan") under which awards of performance shares, performance units, stock options, stock appreciation rights, restricted shares, restricted stock units, deferred shares and other stock-based awards may be granted. On January 31, 2018, shareholders approved Amendment No. 1 to the Incentive Plan pursuant to which, among other things, 1,000,000 shares were added to the Incentive Plan. Options granted under the Incentive Plan may be either “incentive stock options” or nonqualified stock options, generally expire ten years after the date of grant and are granted at an exercise price of not less than 100% of the fair market value at the date of grant. The maximum number of shares of common stock available for award under the Incentive Plan is 3,350,000 (600,000 of which may be issued as incentive stock options), plus (i) any shares reserved for issuance under the 2011 Equity Incentive Plan as of the effective date of the Incentive Plan, and (ii) any shares underlying awards outstanding on such effective date under the 2011 Incentive Plan that are canceled or forfeited. As of March 31, 2018, there were 1,192,193 shares available for grant.

All grants outstanding under former equity plans will continue under their terms; no additional awards will be granted under such plans.

During the first quarter of 2018, Griffon granted 1,008,756 shares of restricted stock and restricted stock units. This included 480,756 shares of restricted stock and restricted stock units, subject to certain performance conditions, with vesting periods of three years, with a total fair value of $9,980, or a weighted average fair value of $20.76 per share. This also included 528,000 shares of restricted stock granted to two senior executives with a vesting period of four years and a two year post-vesting holding period, subject to the achievement of certain absolute and relative performance conditions relating to the price of Griffon's common stock. So long as the minimum performance condition is attained, the amount of shares that can vest will range from 384,000 to 528,000. The total fair value of these restricted shares is approximately $7,008, or a weighted average fair value of $13.27. Also, during the second quarter, Griffon granted 250,170 shares with a vesting period of three years and a fair value of $4,739, or a weighted average fair value of $18.94 per share.

For the quarters ended March 31, 2018 and 2017, stock based compensation expense totaled $2,365 and $2,343, respectively. For the six months ended March 31, 2018 and 2017, such expense totaled $4,920 and $4,795, respectively.

During the quarter and six months ended March 31, 2018, 6,120 shares, with a market value of $114 or $18.61 per share, and 197,452 shares, with a market value of $4,446 or $22.51 per share, respectively, were withheld to settle employee taxes due to the vesting of restricted stock, and were added to treasury.

On December 21, 2009, Griffon issued $100,000 principal amount of 4% convertible subordinated notes due 2017 (the “2017 Notes”). On July 14, 2016, Griffon announced that it would settle, upon conversion, up to $125,000 of the conversion value of the 2017 Notes in cash, with amounts in excess of $125,000, if any, to be settled in shares of Griffon common stock. On January 17, 2017, Griffon settled the convertible debt for $173,855 with $125,000 in cash, utilizing borrowing under the Credit Agreement, and $48,858, or 1,954,993 shares of common stock issued from treasury.

On August 3, 2016, Griffon’s Board of Directors authorized the repurchase of up to $50,000 of Griffon’s outstanding common stock. Under this share repurchase program, the Company may purchase shares in the open market, including pursuant to a 10b5-1 plan, or in privately negotiated transactions. During both the quarter and six months ended March 31, 2018, Griffon purchased 1,438,239 shares of common stock under the August 2016 program, for a total of $28,415 or $19.76. As of March 31, 2018, $21,022 remains under the August 3, 2016 Board authorization.

From August 2011 to March 31, 2018, Griffon repurchased 17,423,093 shares of common stock, for a total of $240,036 or $13.78 per share, under Board authorized repurchase programs.

In addition to repurchases under Board authorized programs, on December 10, 2013, Griffon repurchased 4,444,444 shares of its common stock for $50,000 from GS Direct, L.L.C. ("GS Direct"), an affiliate of The Goldman Sachs Group, Inc. Subject to certain exceptions, if GS Direct intends to sell its remaining 5,555,556 shares of Griffon common stock at any time prior to December 31, 2017, it will first negotiate in good faith to sell such shares to the Company.

NOTE 10 – EARNINGS PER SHARE (EPS)

Basic EPS (and diluted EPS in periods when a loss exists) was calculated by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted EPS was calculated by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding plus additional common shares that were issued in connection with stock based compensation and upon the settlement of the 2017 convertible notes.

The following table is a reconciliation of the share amounts (in thousands) used in computing earnings per share:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Weighted average shares outstanding - basic	41,477	41,277	41,700	40,307
Incremental shares from stock based compensation	1,288	1,557	1,362	1,740
Convertible debt matured 2017	—	395	—	729
Weighted average shares outstanding - diluted	42,765	43,229	43,062	42,776

On July 14, 2016, Griffon announced that it would settle, upon conversion, up to $125,000 of the conversion value of the 2017 Notes in cash, with amounts in excess of $125,000, if any, to be settled in shares of Griffon common stock. During the quarter ended March 31, 2017, Griffon settled the 2017 Notes for $173,855 with $125,000 in cash and 1,954,993 shares of common stock issued from treasury. Prior to settlement, Griffon had the intent and ability to settle the principal amount of the 2017 Notes in cash, and as such, the issuance of shares related to the principal amount of the 2017 Notes did not affect diluted shares.

NOTE 11 – BUSINESS SEGMENTS

Griffon’s reportable segments from continuing operations are as follows:

- HBP is a leading manufacturer and marketer of residential and commercial garage doors to professional dealers and to some of the largest home center retail chains in North America; a global provider of long-handled tools and landscaping products for homeowners and professionals; and a leading North American manufacturer and marketer of closet organization, home storage, and garage storage products to home center retail chains, mass merchandisers, and direct-to builder professional installers.

- Telephonics is recognized globally as a leading provider of highly sophisticated intelligence, surveillance and communications solutions for defense, aerospace and commercial customers.

On November 16, 2017, Griffon announced it entered into a definitive agreement to sell PPC and on February 6, 2018, completed the sale to Berry for $475,000 in cash, subject to certain post-closing adjustments. As a result, Griffon classified the results of operations of the PPC business as discontinued operations in the Consolidated Statements of Operations for all periods presented and classified the related assets and liabilities associated with the discontinued operations in the consolidated balance sheets. All results and information presented exclude PPC unless otherwise noted. PPC is a global leader in the development and production of embossed, laminated and printed specialty plastic films for hygienic, health-care and industrial products and sells to some of the world's largest consumer products companies. See Note 14, Discontinued Operations to the Notes of the Financial Statements.

On October 2, 2017, Griffon acquired ClosetMaid. ClosetMaid, founded in 1965, is a leading North American manufacturer and marketer of closet organization, home storage, and garage storage products, and sells to some of the largest home center retail chains, mass merchandisers, and direct-to-builder professional installers in North America. The accounts of ClosetMaid, affected for preliminary adjustments to reflect fair market values assigned to assets purchased and liabilities assumed, are included in the Company's consolidated financial statements from the date of acquisition of October 2, 2017.

Information on Griffon's reportable segments from continuing operations is as follows:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
REVENUE	2018	2017	2018	2017
Home & Building Products:				
AMES	$182,928	$162,907	$322,910	$283,631
CBP	138,112	122,628	292,348	266,088
ClosetMaid	75,268	—	152,028	—
Home & Building Products	396,308	285,535	767,286	549,719
Telephonics	82,252	98,272	148,577	186,365
Total consolidated net sales	$478,560	$383,807	$915,863	$736,084

The following table reconciles segment operating profit to income before taxes from continuing operations:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
INCOME BEFORE TAXES FROM CONTINUING OPERATIONS	2018	2017	2018	2017
Segment operating profit:				
Home & Building Products	$28,478	$18,314	$56,229	$40,954
Telephonics	1,302	9,015	2,782	14,406
Segment operating profit from continuing operations	29,780	27,329	59,011	55,360
Net interest expense	(16,044)	(12,705)	(32,686)	(25,994)
Unallocated amounts	(10,541)	(10,455)	(20,977)	(20,766)
Acquisition costs	(7)	—	(1,619)	—
Cost of life insurance benefit	—	—	(2,614)	—
Income before taxes from continuing operations	$3,188	$4,169	$1,115	$8,600

Griffon evaluates performance and allocates resources based on each segment's operating results before interest income and expense, income taxes, depreciation and amortization, unallocated amounts (mainly corporate overhead), restructuring charges, loss on debt extinguishment and acquisition related expenses, as well as other items that may affect comparability, as applicable ("Segment adjusted EBITDA"). Griffon believes this information is useful to investors for the same reason.

The following table provides a reconciliation of Segment adjusted EBITDA to Income before taxes from continuing operations:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2018	2017	2018	2017
Segment adjusted EBITDA:				
Home & Building Products	$39,789	$27,565	$79,246	$59,372
Telephonics	3,997	11,786	8,196	19,894
Total Segment adjusted EBITDA	43,786	39,351	87,442	79,266
Net interest expense	(16,044)	(12,705)	(32,686)	(25,994)
Segment depreciation and amortization	(13,199)	(12,022)	(26,051)	(23,906)
Unallocated amounts	(10,541)	(10,455)	(20,977)	(20,766)
Acquisition costs	(814)	—	(3,999)	—
Cost of life insurance benefit	—	—	(2,614)	—
Income before taxes from continuing operations	$3,188	$4,169	$1,115	$8,600

Unallocated amounts typically include general corporate expenses not attributable to a reportable segment.

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
DEPRECIATION and AMORTIZATION	2018	2017	2018	2017
Segment:				
Home & Building Products	$10,504	$9,251	$20,637	$18,418
Telephonics	2,695	2,771	5,414	5,488
Total segment depreciation and amortization	13,199	12,022	26,051	23,906
Corporate	114	125	220	229
Total consolidated depreciation and amortization	$13,313	$12,147	$26,271	$24,135
CAPITAL EXPENDITURES				
Segment:				
Home & Building Products	$8,192	$3,768	$14,850	$10,159
Telephonics	2,442	1,817	4,385	3,113
Total segment	10,634	5,585	19,235	13,272
Corporate	209	2,263	2,393	2,266
Total consolidated capital expenditures	$10,843	$7,848	$21,628	$15,538

ASSETS	At March 31, 2018	At September 30, 2017
Segment assets:		
Home & Building Products	$1,478,951	$ 1,084,103
Telephonics	332,551	343,445
Total segment assets	1,811,502	1,427,548
Corporate	266,518	71,980
Total continuing assets	2,078,020	1,499,528
Assets of discontinued operations	3,280	374,013
Consolidated total	$2,081,300	$ 1,873,541

NOTE 12 – EMPLOYEE BENEFIT PLANS

Defined benefit pension expense (income) was as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Interest cost	$1,407	$1,402	$2,814	$2,804
Expected return on plan assets	(2,684)	(2,736)	(5,368)	(5,472)
Amortization:				
Prior service cost	4	4	8	8
Recognized actuarial loss	525	832	1,050	1,664
Net periodic expense (income)	$(748)	$(498)	$(1,496)	$(996)

As a result of the recent passing of our Chairman of the Board, who participated in a Supplemental Executive Retirement Plan relating to his tenure as Chief Executive Officer (a position from which he retired in 2008), the pension benefit liability was reduced by $13,715 at December 31, 2017, with the offset, net of tax, recorded in Other Comprehensive Income.

NOTE 13 – RECENT ACCOUNTING PRONOUNCEMENTS
Issued but not yet effective accounting pronouncements

In February 2018, the FASB issued guidance that allows companies to reclassify stranded tax effects resulting from the 2017 Tax Cuts and Jobs Act (the Tax Act), from accumulated other comprehensive income to retained earnings. This guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The new standard is effective for the Company beginning in 2020, with early adoption permitted. We are currently evaluating the effects that the adoption of this guidance will have on our consolidated financial statements and the related disclosures.

In May 2017, the FASB issued guidance to address the situation when a company modifies the terms of a stock compensation award previously granted to an employee. This guidance is effective, and should be applied prospectively, for fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period. The new guidance is effective for the Company beginning in 2019. We are currently evaluating the impact of the guidance on the Company's financial condition, results of operations and related disclosures.

In March 2017, the FASB issued amendments to the Compensation - Retirement Benefits guidance which requires companies to retrospectively present the service cost component of net periodic benefit cost for pension and retiree medical plans along with other compensation costs in operating income and present the other components of net periodic benefit cost below operating income in the income statement. The guidance also allows only the service cost

component of net periodic benefit cost to be eligible for capitalization within inventory or fixed assets on a prospective basis. This guidance is effective, and should be applied

retroactively, for fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period. The new guidance is effective for the Company beginning in 2019. We are currently evaluating the impact of the guidance on the Company's financial condition, results of operations and related disclosures.

In January 2017, the FASB issued guidance that simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. This guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those periods and will be effective for the Company beginning in 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact of the guidance on the Company's financial condition, results of operations and related disclosures.

In January 2017, the FASB issued guidance that clarifies the definition of a business, which will impact many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The new standard is intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods and will be effective for the Company beginning in 2019. We are currently evaluating the impact of the guidance on the Company's financial condition, results of operations and related disclosures.

In August 2016, the FASB issued guidance on the Statement of Cash Flows Classification of certain cash receipts and cash payments (a consensus of the FASB Emerging Issues Task Force). This guidance addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This guidance will be effective for the Company beginning in 2019. We are currently evaluating the impact of the guidance on the Company's financial condition, results of operations and related disclosures.

In February 2016, the FASB issued guidance on lease accounting requiring lessees to recognize a right-of-use asset and a lease liability for long-term leases. The liability will be equal to the present value of lease payments. This guidance must be applied using a modified retrospective transition approach to all annual and interim periods presented and is effective for the Company beginning in 2020. We are currently evaluating the impact of the guidance on the Company's financial condition, results of operations and related disclosures.

In May 2014, the FASB issued guidance on revenue from contracts with customers. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved, in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. This guidance permits the use of either the retrospective or cumulative effect transition method and is effective for the Company beginning in 2019; early adoption is permitted beginning in 2018. The Company has commenced its initial assessment to assess the impact, if any, the new revenue standard will have on the Company’s consolidated financial statements. During this initial assessment, the Company has identified certain differences that will likely have the most impact; however, how significant of an impact cannot be determined during this phase of the Company’s implementation process. These differences relate to the new concepts of variable

consideration, consideration payable and the focus on control to determine when and how revenue should be recognized (i.e. point in time versus over time). The FASB has also issued the following additional guidance clarifying certain issues on revenue from contracts with customers; Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients and Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing. The Company expects to complete its initial assessments by the end of the third quarter of 2018 and expects to finalize its implementation process prior to the adoption of the new revenue standard on October 1, 2018.

The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements, and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

NOTE 14 – DISCONTINUED OPERATIONS

PPC

On November 16, 2017, Griffon announced it entered into a definitive agreement to sell PPC and on February 6, 2018, completed the sale to Berry for $475,000 in cash, subject to certain post-closing adjustments. As a result, Griffon classified the results of operations of the PPC business as discontinued operations in the Consolidated Statements of Operations for all periods presented and classified the related assets and liabilities associated with the discontinued operations in the consolidated balance sheets. All results and information presented exclude PPC unless otherwise noted. PPC is a global leader in the development and production of embossed, laminated and printed specialty plastic films for hygienic, health-care and industrial products and sells to some of the world's largest consumer products companies. In connection with the sale of PPC, the Company recorded a gain of $117,625 ($86,357, net of tax) during the quarter ended March 31, 2018. The tax computed on the PPC gain is preliminary and is subject to finalization.

Summarized results of the Company's discontinued operations are as follows:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2018	2017	2018	2017
Revenue	$45,832	$111,958	$166,262	$226,780
Cost of goods and services	36,157	95,277	132,100	190,715
Gross profit	9,675	16,681	34,162	36,065
Selling, general and administrative expenses	13,995	10,556	26,103	21,416
Income (loss) from discontinued operations	(4,320)	6,125	8,059	14,649
Other income (expense)				
Gain on sale of business	117,625	—	117,625	
Interest expense, net	(95)	82	(155)	4
Other, net	166	(137)	(687)	(38)
Total other income (expense)	117,696	(55)	116,783	(34)
Income from operations of discontinued operations	$113,376	$6,070	$124,842	$14,615

The Company has no assets or liabilities classified as held for sale as of March 31, 2018. The following amounts related to the PPC segment have been segregated from Griffon's continuing operations and are reported as assets and liabilities of discontinued operations held for sale in the consolidated balance sheet at September 30, 2017:

	At September 30, 2017
ASSETS	
Accounts receivable, net	$ 51,768
Inventories, net	45,742
Prepaid and other current assets	11,000
PROPERTY, PLANT AND EQUIPMENT, net	185,940
GOODWILL	57,087
INTANGIBLE ASSETS, net	12,298
OTHER ASSETS	6,889
Total Assets Held for Sale	370,724
LIABILITIES	
Notes payable and current portion of long-term debt	$ 11,163
Accounts payable	36,619
Accrued liabilities	14,553
LONG-TERM DEBT, net	10,549
OTHER LIABILITIES	11,566
Total Liabilities Held for Sale	$ 84,450

In connection with the sale transaction, the Company recorded liabilities of $46,968 as of March 31, 2018 primarily for income taxes payable, stay and transaction bonuses, and other remaining accrued liabilities.

On September 5, 2017, Griffon entered into an engagement letter with Goldman Sachs pursuant to which Goldman Sachs agreed to act as Griffon’s financial advisor in connection with the exploration of strategic alternatives for Clopay Plastics. On November 15, 2017, Griffon signed an agreement to sell Clopay Plastics for $475,000 to Berry Global Group, Inc. Griffon subsequently paid a customary financial advisory fee to Goldman Sachs under the terms of this engagement letter upon closing of the transaction.

Installation Services and Other Discontinued Activities

In 2008, as a result of the downturn in the residential housing market, Griffon exited substantially all operating activities of its Installation Services segment which sold, installed and serviced garage doors and openers, fireplaces, floor coverings, cabinetry
and a range of related building products, primarily for the new residential housing market. In 2008, Griffon sold eleven units, closed one unit and merged two units into CBP. Griffon substantially concluded its remaining disposal activities in 2009.

Installation Services operating results have been reported as discontinued operations in the Consolidated Statements of Operations and Comprehensive Income (Loss) for all periods presented; Installation Services is excluded from segment reporting. There was no reported revenue in the quarters and six months ended March 31, 2018 and 2017.

During the year ended September 30, 2017, Griffon recorded $5,700 of reserves in discontinued operations related to historical environmental remediation efforts and to increase the reserve for homeowner association claims (HOA) related to the Clopay Services Corporation discontinued operations in 2008.

The following amounts related to the Installation Services segment, discontinued in 2008, and other businesses discontinued several years ago, which have been segregated from Griffon's continuing operations, and are reported as assets and liabilities of discontinued operations not held for sale in the Condensed Consolidated Balance Sheets:

	At March 31, 2018	At September 30, 2017
Assets of discontinued operations not held for sale:		
Prepaid and other current assets	$ 328	$ 329
Other long-term assets	2,952	2,960
Total assets of discontinued operations not held for sale	$ 3,280	$ 3,289
Liabilities of discontinued operations not held for sale:		
Accrued liabilities, current	$ 3,807	$ 8,342
Other long-term liabilities	5,177	3,037
Total liabilities of discontinued operations not held for sale	$ 8,984	$ 11,379

There was no Installation Services revenue or income for the quarter ended March 31, 2018 or 2017.

NOTE 15 – OTHER INCOME (EXPENSE)

For the quarters ended March 31, 2018 and 2017, Other income (expense) primarily consisted of $217 and ($291), respectively, of net currency exchange gains (losses) in connection with the translation of receivables and payables denominated in currencies other than the functional currencies of Griffon and its subsidiaries as well as $1,266 and $68, respectively, of net investment income (loss).

For the six months ended March 31, 2018 and 2017, Other income (expense) primarily consisted of $(219) and $(423), respectively, of net currency exchange losses in connection with the translation of receivables and payables denominated in currencies other than the functional currencies of Griffon and its subsidiaries, as well as $1,261 and $155, respectively, of net investment income.

NOTE 16 – WARRANTY LIABILITY

Telephonics offers warranties against product defects for periods generally ranging from one to two years, depending on the specific product and terms of the customer purchase agreement. CBP also offers warranties against product defects for periods generally ranging from one to ten years, with limited lifetime warranties on certain door models. Typical warranties require CBP, ClosetMaid and Telephonics to repair or replace the defective products during the warranty period at no cost to the customer. At the time revenue is recognized, Griffon records a liability for warranty costs, estimated based on historical experience, and periodically assesses its warranty obligations and adjusts the liability as necessary. AMES offers an express limited warranty for a period of ninety days on all products from the date of original purchase unless otherwise stated on the product or packaging and subject to certain disclaimers and limitations.

Changes in Griffon's warranty liability, included in Accrued liabilities, were as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Balance, beginning of period	$6,055	$6,015	$6,236	$6,322
Warranties issued and changes in estimated pre-existing warranties	1,637	1,213	3,112	2,507
Actual warranty costs incurred	(1,434)	(1,425)	(3,926)	(3,026)

Other warranty liabilities assumed from acquisitions	—	—	836	$—
Balance, end of period	$6,258	$5,803	$6,258	$5,803

NOTE 17 – OTHER COMPREHENSIVE INCOME (LOSS)

The amounts recognized in other comprehensive income (loss) were as follows:

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax
Foreign currency translation adjustments	$19,714	$—	$19,714	$8,409	$—	$8,409
Pension and other defined benefit plans	376	(129)	247	836	(292)	544
Cash flow hedges	616	(176)	440	(1,428)	408	(1,020)
Total other comprehensive income (loss)	$20,706	$(305)	$20,401	$7,817	$116	$7,933

	Six Months Ended March 31, 2018			Six Months Ended March 31, 2017		
	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax
Foreign currency translation adjustments	$18,425	$—	$18,425	$(5,070)	$—	$(5,070)
Pension and other defined benefit plans	14,620	(4,814)	9,806	1,672	(584)	1,088
Cash flow hedges	746	(218)	528	844	(241)	603
Total other comprehensive income (loss)	$33,791	$(5,032)	$28,759	$(2,554)	$(825)	$(3,379)

The components of Accumulated other comprehensive income (loss) are as follows:

	March 31, 2018	September 30, 2017
Foreign currency translation adjustments	$(13,802)	$ (32,227)
Pension and other defined benefit plans	(18,334)	(28,140)
Change in Cash flow hedges	414	(114)
	$(31,722)	$ (60,481)

Amounts reclassified from accumulated other comprehensive income (loss) to income were as follows:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
Gain (Loss)	2018	2017	2018	2017
Pension amortization	$(529)	$(836)	$(1,058)	$(1,672)
Cash flow hedges	(34)	(172)	(40)	(821)
Removal of PPC translation adjustment	14,866	—	14,866	—
Total gain (loss)	14,303	(1,008)	13,768	(2,493)
Tax benefit (expense)	(3,315)	303	(3,313)	748
Total	$10,988	$(705)	$10,455	$(1,745)

NOTE 18 — COMMITMENTS AND CONTINGENCIES

Legal and environmental

Department of Environmental Conservation of New York State (“DEC”), with ISC Properties, Inc. Lightron Corporation (“Lightron”), a wholly-owned subsidiary of Griffon, once conducted operations at a location in Peekskill in the Town of Cortlandt, New York (the “Peekskill Site”) owned by ISC Properties, Inc. (“ISC”), a wholly-owned subsidiary of Griffon. ISC sold the Peekskill Site in November 1982.

Subsequently, ISC was advised by the DEC that random sampling at the Peekskill Site and in a creek near the Peekskill Site indicated concentrations of solvents and other chemicals common to Lightron's prior plating operations. ISC then entered into a consent order with the DEC in 1996 (the "Consent Order") to perform a remedial investigation and prepare a feasibility study. After completing the initial remedial investigation pursuant to the Consent Order, ISC was required by the DEC, and did accordingly conduct over the next several years, supplemental remedial investigations, including soil vapor investigations, under the Consent Order.

In April 2009, the DEC advised ISC's representatives that both the DEC and the New York State Department of Health had reviewed and accepted an August 2007 Remedial Investigation Report and an Additional Data Collection Summary Report dated January 30, 2009. With the acceptance of these reports, ISC completed the remedial investigation required under the Consent Order and was authorized, accordingly, by the DEC to conduct the Feasibility Study required by the Consent Order. Pursuant to the requirements of the Consent Order and its obligations thereunder, ISC, without acknowledging any responsibility to perform any remediation at the Site, submitted to the DEC in August 2009, a draft feasibility study which recommended for the soil, groundwater and sediment media, remediation alternatives having a current net capital cost value, in the aggregate, of approximately $5,000. In February 2011, DEC advised ISC it has accepted and approved the feasibility study. Accordingly, ISC has no further obligations under the consent order.

Upon acceptance of the feasibility study, DEC issued a Proposed Remedial Action Plan ("PRAP") that sets forth the proposed remedy for the site. The PRAP accepted the recommendation contained in the feasibility study for remediation of the soil and groundwater media, but selected a different remediation alternative for the sediment medium. The approximate cost and the current net capital cost value of the remedy proposed by DEC in the PRAP is $10,000. After receiving public comments on the PRAP, the DEC issued a Record of Decision ("ROD") that set forth the specific remedies selected and responded to public comments. The remedies selected by the DEC in the ROD are the same remedies as those set forth in the PRAP.

It is now expected that DEC will enter into negotiations with potentially responsible parties to request they undertake performance of the remedies selected in the ROD, and if such parties do not agree to implement such remedies, then the State of New York may use State Superfund money to remediate the Peekskill site and seek recovery of costs from such parties. Griffon does not acknowledge any responsibility to perform any remediation at the Peekskill Site.

Improper Advertisement Claim involving Union Tools® Products. Beginning in December 2004, a customer of AMES had been named in various litigation matters relating to certain Union Tools products. The plaintiffs in those litigation matters asserted causes of action against the customer of AMES for improper advertisement to end consumers. The allegations suggested that advertisements led the consumers to believe that Union Tools' hand tools were wholly manufactured within boundaries of the United States. The complaints asserted various causes of action against the customer of AMES under federal and state law, including common law fraud. At some point, the customer may seek indemnity (including recovery of its legal fees and costs) against AMES for an unspecified amount. Presently, AMES cannot estimate the amount of loss, if any, if the customer were to seek legal recourse against AMES.

Union Fork and Hoe, Frankfort, NY site. The former Union Fork and Hoe property in Frankfort, NY was acquired by Ames in 2006 as part of a larger acquisition, and has historic site contamination involving chlorinated solvents, petroleum hydrocarbons and metals. AMES has entered into an Order on Consent with the New York State Department of Environmental Conservation. While the Order is without admission or finding of liability or acknowledgment that there has been a release of hazardous substances at the site, AMES is required to perform a remedial investigation of certain portions of the property and to recommend a remediation option. At the conclusion of the remediation phase to the satisfaction of the DEC, the DEC will issue a Certificate of Completion. AMES has

performed significant investigative and remedial activities in the last few years under work plans approved by the DEC, and the DEC has approved the final remedial investigation and feasibility study reports. AMES' recommended remedial option of excavation and offsite disposal of lead contaminated soils, capping of other areas of the site impacted by other metals and performing limited groundwater monitoring was accepted by the DEC in a Record of Decision issued March 1, 2018. Implementation of the selected remedial alternative is expected to be completed in 2019. AMES has a number of defenses to liability in this matter, including its rights under a previous Consent Judgment entered into between the DEC and a predecessor of AMES relating to the site.

US Government investigations and claims

In general, departments and agencies of the US Government have the authority to investigate various transactions and operations of Griffon, and the results of such investigations may lead to administrative, civil or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory or treble damages. US Government regulations provide that certain findings against a contractor may lead to suspension or debarment from future US Government contracts or the loss of export privileges for a company or an operating division or subdivision. Suspension or debarment could have a material adverse effect on Telephonics because of its reliance on government contracts.

General legal

Griffon is subject to various laws and regulations relating to the protection of the environment and is a party to legal proceedings arising in the ordinary course of business. Management believes, based on facts presently known to it, that the resolution of the matters above and such other matters will not have a material adverse effect on Griffon's consolidated financial position, results of operations or cash flows.

NOTE 19 — CONSOLIDATING GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

Griffon's Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior secured basis by the domestic assets of Clopay Building Products Company, Inc., Telephonics Corporation, The AMES Companies, Inc., ATT Southern, Inc., Clopay Ames True Temper Holding Corp., and ClosetMaid, LLC, all of which are indirectly 100% owned by Griffon. In accordance with Rule 3-10 of Regulation S-X promulgated under the Securities Act of 1933, presented below are condensed consolidating financial information as of March 31, 2018 and September 30, 2017 and for the three months ended March 31, 2018 and 2017. The financial information may not necessarily be indicative of the results of operations or financial position of the guarantor companies or non-guarantor companies had they operated as independent entities. The guarantor companies and the non-guarantor companies include the consolidated financial results of their wholly-owned subsidiaries accounted for under the equity method.

The indenture relating to the Senior Notes (the "Indenture") contains terms providing that, under certain limited circumstances, a guarantor will be released from its obligations to guarantee the Senior Notes. These circumstances include (i) a sale of at least a majority of the stock, or all or substantially all the assets, of the subsidiary guarantor as permitted by the Indenture; (ii) a public equity offering of a subsidiary guarantor that qualifies as a "Minority Business" as defined in the Indenture (generally, a business the EBITDA of which constitutes less than 50% of the segment adjusted EBITDA of the Company for the most recently ended four fiscal quarters), and that meets certain other specified conditions as set forth in the Indenture; (iii) the designation of a guarantor as an "unrestricted subsidiary" as defined in the Indenture, in compliance with the terms of the Indenture; (iv) Griffon exercising its right to defease the Senior Notes, or to otherwise discharge its obligations under the Indenture, in each case in accordance with the terms of the Indenture; and (v) upon obtaining the requisite consent of the holders of the Senior Notes.

CONDENSED CONSOLIDATING BALANCE SHEETS
At March 31, 2018

($ in thousands)	Parent Company	Guarantor Companies	Non-Guarantor Companies		Elimination	Consolidation
CURRENT ASSETS						
Cash and equivalents	$177,429	$22,937	$36,090		$—	$ 236,456
Accounts receivable, net of allowances	—	224,997	70,719		(23,750)	271,966
Contract costs and recognized income not yet billed, net of progress payments	—	121,883	273		—	122,156
Inventories, net	—	318,101	66,409		(43)	384,467
Prepaid and other current assets	15,481	16,069	9,611		5,999	47,160
Assets of discontinued operations not held for sale	—	—	328		—	328
Total Current Assets	192,910	703,987	183,430		(17,794)	1,062,533
PROPERTY, PLANT AND EQUIPMENT, net	863	247,766	42,887		—	291,516
GOODWILL	—	350,157	72,316		—	422,473
INTANGIBLE ASSETS, net	93	213,888	72,175		—	286,156
INTERCOMPANY RECEIVABLE	148,879	370,725	(170,970	)	(348,634)	—
EQUITY INVESTMENTS IN SUBSIDIARIES	1,253,347	970,149	3,143,462		(5,366,958)	—
OTHER ASSETS	6,519	12,611	(1,986	)	(1,474)	15,670
ASSETS OF DISCONTINUED OPERATIONS NOT HELD FOR SALE	—	—	2,952		—	2,952
Total Assets	$1,602,611	$2,869,283	$3,344,266		$(5,734,860)	$ 2,081,300
CURRENT LIABILITIES						
Notes payable and current portion of long-term debt	$2,276	$5,425	$5,216		$—	$ 12,917
Accounts payable and accrued liabilities	82,647	236,825	30,556		19,465	369,493
				a.		
Liabilities of discontinued operations not held for sale	—	—	50,927	To vote For, please press 1.		

b. To vote Against, please press 6.
c. To Abstain, please press 0.
d. I m sorry, that entry was not recognized (repeat a-c)

17. Item 3

a. To vote For, please press 1.
b. To vote Against, please press 6.
c. To Abstain, please press 0.

d. I m sorry, that entry was not recognized (repeat a-c)

18. Item 4

a. To vote For, please press 1.
b. To vote Against, please press 6.
c. To Abstain, please press 0.
d. I m sorry, that entry was not recognized (repeat a-c)

19. Your votes have been cast as follows

a. Nominee 1, (For, Against or Abstain).
b. Nominee 2, (For, Against or Abstain).
c. Nominee 3, (For, Against or Abstain).
d. Nominee 4, (For, Against or Abstain).
e. Nominee 5, (For, Against or Abstain).
f. Nominee 6, (For, Against or Abstain).
g. Nominee 7, (For, Against or Abstain).
h. Nominee 8, (For, Against or Abstain).
i. Nominee 9, (For, Against or Abstain).
j. Nominee 10, (For, Against or Abstain).
k. Nominee 11, (For, Against or Abstain).
l. Item 2, (For, Against or Abstain).
m. Item 3, (For, Against or Abstain).
n. Item 4, (For, Against or Abstain).
o. If this is correct, please press 1
   i. If you would like to vote another proxy, please press 1; if not please press 0.
   ii. Thank you for voting.
   iii. Goodbye
p. If this is not correct, please press 0
   iv. If you would like to try again, please press 1, if not, please press 0.
   v. Please try your call again later, or vote, sign, date and mail your proxy card using the envelope provided.
   vi. Goodbye

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[TEXT OF COMPUTER SCREEN FOR ELECTRONIC DELIVERY OF PROXY STATEMENT AND

ANNUAL REPORT TO REGISTERED STOCKHOLDERS]

Eastman Chemical Company

View 2018 Annual Report
View 2019 Proxy Statement
Request Proxy Material
Vote Your Proxy

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[TEXT OF COMPUTER SCREENS FOR INTERNET PROXY VOTING BY REGISTERED STOCKHOLDERS]

When you submit your voting instructions through this site, it is the same as if you mark, sign and return your voting instruction form or proxy card.

Please enter your 11-digit electronic voting number, then click the Submit button or press ENTER on your keyboard. On your voting instruction form or proxy card, this number is found by an arrow in a box.

Enter the 11-digit number here:

If you submit voting instructions using the same electronic voting number more than once, only the last instructions you submit will be valid. All previous instructions are revoked.

Submit

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By submitting your voting instructions through this site, you are agreeing with the **appointment of proxy**. Please indicate how you wish to vote and click on **Submit Voting Instructions** at the bottom of this screen. If you submit your voting instructions without making any specifications, your vote will be recorded according to the recommendations of the Board of Directors.

Click here to view the Eastman Chemical Company

Annual Report.

Click here to view the Eastman Chemical Company Proxy

Statement.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE NOMINEES IN ITEM 1.

1. Election of Directors:

Nominees for election of eleven directors to serve until the Annual Meeting of Stockholders in 2020 and their successors are duly elected and qualified:

	FOR	**AGAINST**	**ABSTAIN**
1. HUMBERTO P. ALFONSO			
2. BRETT D. BEGEMANN			
3. MICHAEL P. CONNORS			
4. MARK J. COSTA			
5. ROBERT M. HERNANDEZ			
6. JULIE F. HOLDER			
7. RENÉE J. HORNBAKER			
8. LEWIS M. KLING			
9. KIM ANN MINK			
10. JAMES J. O BRIEN			
11. DAVID W. RAISBECK			

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ITEMS 2 AND 3.

	FOR	**AGAINST**	**ABSTAIN**
2. Advisory Approval of Executive Compensation as Disclosed in Proxy Statement			
3. Ratification of Appointment of PricewaterhouseCoopers LLP as Independent Registered Public Accounting Firm			

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST ITEM 4

4. Advisory Vote on Stockholder Proposal Requesting that the Board of Directors Takes Steps Necessary to Permit Stockholders to Act by Written Consent

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	YES	NO
Do you plan to attend the Annual Meeting? (If so, you will receive an Admission Ticket approximately 10 days before the Meeting.)		

Please enter any change of address. (Limit 150 characters)

Please enter any comments. (Limit 1,000 characters)

Please enter your e-mail address to receive confirmation that your instructions were recorded.

We respect your privacy. Your e-mail address will not be saved or used for any purpose other than sending your confirmation e-mail.

After reviewing the above selections, click the button below to submit your voting instructions. You should see a screen confirming your instructions as they have been recorded.

Submit Voting Instructions